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SME Competitiveness: Internationalization Strategy
“Internationalization Process of Science4you to the United Kingdom”

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1. Executive Summary

This thesis analyzes and proposes the internationalization strategy of the Portuguese company Science4you to the United Kingdom focusing on its core business, educational scientific toys development. Science4you is a profitable and recently formed company that has already established international operations and is seeking to increase its external revenue streams by reaching other countries.

The study scrutinizes the internal environmental context by examining the company history, objectives, operations functioning, industry key drivers and its competitive assessment. In view of the fact that Science4you has been considering the hypothesis of expanding its operations to the United Kingdom, this country was the main target of the study research. Nevertheless, the British toy market attractiveness was analyzed and compared to other potential candidates confirming that the United Kingdom represents a prosperous expansion opportunity. Furthermore a country macro-environmental and a British toy sector analysis were performed, allowing a detailed proposal of the implementation plan regarding the mode of entry, resources needed and the best way to explore the company capabilities in the United Kingdom, namely through the establishment of a direct exporting strategy.

Keywords: Toys Market, United Kingdom, Science4you, Educational scientific toys.

2. Methodology

The internationalization project was prepared under the supervision of the professors Sonia Dahab and Filipe Castro Soeiro, using crucial data regarding Science4you operations provided by Miguel Pina Martins, Science4you CEO, and secondary data available in strategy books, business articles and web sites presented on the bibliography.

3. Science4you¹

“Science4you, S.A” (S4Y) was created by Miguel Pina Martins, see *Appendix 1- CEO profile*, in 2008 supported by a venture capital program, FINICIA, and in partnership with Faculdade de Ciências - Universidade de Lisboa (FCUL). Operating in the toys industry integrates two complement areas in its operations, toys, and formation.

Toy assembly, development and commercialization represent the core business and main source of revenue for the company (75%), and the formation component encloses the training courses, birthday parties, holiday camps and science workshops, contributing to a higher dissemination of the company core products.

S4Y is a pioneer in the Portuguese market, since so far the educational scientific toys niche in which the company competes was only being addressed by international players. On the other hand S4Y focus the market needs for innovative toy concepts by incorporating an educational component in the product and by allowing children to better develop their intellectual skills. S4Y presents products for the ages 5-14, focused in ecological and general science building sets and scientific and generalist puzzles, see *Appendix 2- Products Portfolio*.

One of the core competences of the company is its strategic partnerships. In 2008, the first affiliation established was with FCUL, and it involved the S4Y infrastructure location inside the university campus as well as a quality certification granted to all the toys produced. Secondly the company established collaboration with several scientific and childhood museums. The main characteristic of this strategic partnership involves free museums tickets inserted in every S4Y toys. This strategy adds value to the final product, contributes to a higher differentiation, involves the parents in the toy purchase, and increases the number of people visiting the museums.

In terms of toy creation, the R&D department represents a crucial asset for S4Y, and is responsible for the analysis of new materials, the development of new distinctive features, and the creation of specialized scientific manuals for the final product.

The control structure of S4Y is extremely centralized. Miguel Pina Martins is a central piece in the organization, mainly due to his involvement in almost every process. Nevertheless, the company is making an obvious effort to decentralize the decision-making process at the level of the secondary business component (formation), by the delegation of higher responsibilities to the staff involved in those activities.

S4Y is headquartered in Lisbon and possesses three Portuguese and one Spanish store, see *Appendix 3- Spanish Operations*, is present in Brazil through a sales representative, and also exports some products to Angola.

The business model is based on rediscovering toys for the educational scientific niche, thus, the company works mainly as an R&D enterprise that outsources production and bases its productive activity in the joint assembly of finished toy components, which so far is resulting in an incredible sales growth rate, see *Appendix 4-Financial Indicators*.

4. Perspective on Mission, Vision and Strategic Objectives

Mission: Sensitize children and the community for the matters of experimental sciences in their daily life with the objective of adding educational value to their leisure activities. **Vision:** To solidify its position in the national market in the next three years and internationally become a reference brand in the next five years, in the kits market, scientific toys and education, aimed at providing everyone a contact with experimental sciences based on superior quality and reduced price. **Strategic Objectives:** 1) Achieve the sales mark of €500.000 in 2011; 2) Settle operations in London to address the United Kingdom market, early 2012; 3) Expand domestically - Establishment of three

new S4Y mall stands in 2012; 4) 50% of the sales revenues resulting from the external markets, next two years; 5) Increase their internationalization exposure by addressing the European Union markets and Brazil in the next three years.

5. Environmental Context

The toys market encloses an enormous majority of different products commonly divided into 11 segmentsⁱ. Educational scientific toys are a representative niche inside the toys market with the main goal of promoting intellectual growth education in children about the specific subjects of science. The toy market evidences a stabilized growth in terms of sales revenues, and even with a decrease of 1,1% in 2008 mainly due to the financial crisis, in 2009 it managed to recover and grew up 3,6% to €59.221 billionⁱⁱ led by the United States, Japan and China. In 2010, the global toy market presented a growth of 3,8% achieving €61.499 billionⁱⁱ ², and the market forecast is to accelerate until 2014 with a growth rate of about 5% per year³, see *Appendix 5- World Overview*.

The European Union toy sector is one of the most active businesses in Europe in which 80% of SME have less than 50 employees and presents a rate of approximately 60% of new products each year. The business is greatly seasonal: around 60% of the sales are performed around Christmas, and in 2010 the toy retail market totaled €15.5 billion led by the sector's five largest economies, United Kingdom, France, Germany, Italy, and Spain, which all together presented a combined market share of 73% of the entire European Toy sector. In terms of potential market size there were 78.3 million children under the age of 14 in 2010, and the main toys categories sold in the same year were

ⁱ Infant/Preschool toy, Games/Puzzles, Dolls, Outdoor and Sports toys, Vehicles, Building sets, Arts and Crafts, Plush, Action Figures and Accessories, and Other toys. The segment of video games is commonly excluded from the traditional toys market however they assume an important role in terms of substitute products.

ⁱⁱ Nov.2011 Exchange rates

concentrated in infant/preschool toys, games/puzzles and dolls segments (Facts and Figures Toy Industries of Europe, 2010), see *Appendix 5- World Overview*.

6. Industry Mapping

S4Y business model entails the necessity of dealing with a complex network of different business groups; see *Appendix 6- Industry Mapping*.

Suppliers: are divided into two distinct groups: 1) Graphic companies group which is composed only by Portuguese companies and are mainly responsible for the puzzles and scientific manuals printing and the imaging and production of the toys boxes. 2) Producers of finished components are composed by a massive number of different Portuguese (71%) and foreign companies, see *Appendix 4-Financial Indicators*. The choice of Portuguese suppliers is linked essentially with three main reasons: 1) the quantities ordered are rather small and the company has not yet achieved the economies of scale necessary to gain an advantage from using cheaper foreign production economies (e.g. China); 2) provides higher quality control and improved communication with suppliers; 3) allows the use of the “Compro o que é Nosso” symbol. With this strategy S4Y avoids intermediation costs and improves its margins.

Distribution Companies: Specialized transportation companies that deal with the delivery of the final product to retailers and in the case of S4Y is performed by TNT.

Regulatory Authorities: are both national and international entities. In Portugal the market is supervised by ASAE⁴ and in the external market the European Council and Parliament are responsible for the legislation.

Competitors: S4Y experiences two natures of competition. Indirect competition is classified as the total group of brands that sell traditional toys and video games manufacturers and direct competitors are educational scientific toys producers.

Clients: 1) Retailers: The B2B segment is responsible for the highest sales percentage, see *Appendix 4- Financial Indicators*. These clients are divided into large retailers - FNAC, Toys'R'us, Bertrand, Jerónimo Martins (Pingo Doce), Auchan (Jumbo), Staples and El Corte Inglés, and into toy shops that are not in direct interaction with S4Y, because based on a licensing contract, the company Sr.Brinquedo is the one in charge of addressing toy shops in Portugal. 2) Final Consumers: Are mainly families with children in the ages 5-14, and the interaction is performed through S4Y own channels, which are shopping mall stands situated in Lisbon, in shopping mall Colombo, Vasco da Gama and Amoreiras, and the online store available in the company website.

Strategic Partners: FCUL certified S4Y products and participated in the development of some of the toys in the first year of operations. The second strategic partners are the museums, Museu de Ciência da Universidade de Lisboa, Pavilhão do Conhecimento, Planetário - Centro de Ciência Viva do Porto, and several others spread through different Portuguese regions such as Algarve, Coimbra, Aveiro, and Madeira. This relation involves the offering of museum free entrances in every toy and the tickets are completely offered by the museums without any additional payment from S4Y.

7. Value Chain

The process of sending a new toy to the market, see *Appendix 7-Value Chain*, starts with the CEO providing general guidelines to the R&D department regarding the scope on which the toy should be focused (e.g. renewable energies, general sciences, etc). The concept development is based on simple market assessments and informal changes of information with large retailers, mainly in FNAC (CEO networking), in order to analyze the market necessities/trends and final consumer preferences. Afterwards the R&D team, composed by three designers and four scientists from the areas of chemistry,

biology and microbiology, start the creation of the product by presenting a prototype. Once design specifications and attributes are defined the management team performs a market assessment in order to evaluate which suppliers present a better quality/price ratio and the order for finished and graphic components is placedⁱⁱⁱ. During the product assembly, the finished components are joined together in the designated box along with the scientific manuals and ticket offers, composing the final product.

There are three types of orders: 1) Sr. Brinquedo - the buyer receives the product at S4Y warehouse; 2) Retailers - S4Y uses TNT to deliver the toys. 3) S4Y own stores - the stock is delivered in stores using a S4Y vehicle.

The marketing strategy is based in the partnerships developed, the interviews granted to renowned Portuguese and Spanish newspapers and televisions, the Facebook page, and the use of an external communication company that regulates the company reports in the media. The customer relationship management is a rather small component of the marketing strategy and results from the company's effort to incentive a second product purchase and to increase the brand loyalty (e.g. free of charge, the company assures the replacement of any part of the toy that might break or run out).

Regarding the supporting activities, S4Y administrative infrastructure is composed by an office, warehouse and assembly line in Lisbon and two branches in Oporto and Madrid. Some of the administrative tasks, mainly accounting and contracts negotiation advisement, are outsourced. Concerning the quality management, it is a rather underdeveloped concept characterized by the informal change of information with suppliers in order to guarantee the overall quality of the products delivered.

ⁱⁱⁱ Sience4you uses a stock management system called PRIMAVERA responsible for the products tracking and control during both the inbound and outbound logistics.

8. Critical Analysis

In four years of existence S4Y presents a successful evolution in terms of sales growth and international expansion. However, there are some internal areas that need development to achieve higher success. Most important aspects to be revised are linked with assembly capacity, dependence on large retailers, promotion and quality control.

Currently the company has only two employees responsible for the assembly process and whenever a peak in demand occurs all other employees (managers, scientists, and designers) are called to assist the process. This is not a very sustainable principle since the company is wasting precious human capital by using specialized workforce to perform assemblage. Other strategy used by the company is the outsourcing of part-time employees (mainly university students that receive a one day formation) in the peak seasons, which seems to be a good strategy to reduce costs but raises the problem of lack of expertise. If the company desires to succeed in the international market will need to increase its assembly capacity in order to be able to constantly respond to the market demand. By accurately forecasting the market demand the company will be able to assess how many employees will be necessary to respond to the annual demand thus avoiding both outsourcing and the need of the entire team to participate.

The main market analysis tool that the company possesses is the informal exchange of information maintained with its major clients. However, this represents a problem in the sense that S4Y is granting a greater power to retailers, thus becoming more dependent on them. By enlarging the number of S4Y stores and through an increase of the online sales channel awareness, it will be able to better understand the market settings and it will spread the risk by becoming less dependent on retailer's sales.

At the moment the only marketing channels used by S4Y are the Facebook and media articles/interviewees, therefore the company should increase the marketing investment mainly by promoting in specialized magazines (e.g. Pais&Filhos, Coisas de Criança), through the creation of the S4Y loyalty card (points are attributed according to each purchase and can be used as a discount in posterior purchases) and the creation of online interactive games that would be activated through codes inserted in every toy thus increasing the brand awareness amongst children.

Concerning quality management, the only quality assessment performed is a rather informal discussion with suppliers regarding the quality of the products delivered. This is contributing for some products to arrive at the final consumer with small deficiencies such as inexistent or broken components, which S4Y then needs to replace. In a small scale this is a tolerable error, however, on an international scope this may create superior costs and brand deterioration. The company should implement ISO standards in the assembly line to stimulate precise processes and consequently higher quality.

9. Competitors Analysis

Considering the educational scientific toys market niche key buyers, families with children from 5 to 14 years old, one can assume two different alternatives: 1) Direct competitors – Educational scientific toys; 2) Indirect competitors - Other traditional toys and Video games.

Direct Competitors (Educational Scientific Toys)

Operating in the same market niche as S4Y in Portugal we can mention the companies: **4M** is a Chinese company offering some similar products to S4Y and in terms of presence its products are mainly found in FNAC and El Corte Inglés; **Clementoni** is an Italian manufacturer essentially characterized as a major puzzle producer and their

products are mainly available in FNAC, Continente, and Toys “R” Us. **Discovery Channel** toys are growing as a part of the Discovery Channel line of products and its toys are commercialized in Continente. **Edu-Science** is focused in technologically advanced scientific products thus presenting higher prices. **ItsImagical** is one of the brand names of Imaginarium⁵ stores and presents a very large range of products that tend to address essentially the needs of younger children. **Eurekakids** is a major Spanish retailer that sells mostly licensed products but also offers a broad range of its own products and the direct competition with S4Y in Portugal is performed through its own online channel. **S4Y** presents less expensive and more differentiate products than direct competitors and its products are available in a wider number of retailers, see *Appendix 8- Internal Direct Competitors Analysis*.

Indirect Competitors

Other traditional toys⁶: Are mainly concentrated in non specialized and specialized large retailers, toy shops and some hypermarket chains. Top players are: **Mattel** is the national and international market leader that is responsible for products such as Barbie and Ken. **Concentra** is a Portuguese manufacture and occupies the second position in the national market combining 50% of external licensed products and 50% of products produced by the company. It offers products such as Noddy, Ruca, and Hello Kity toys. **Hasbro** is an American company and one of the largest worldwide producers, selling products mainly produced in China and presents such traditional products as the monopoly game, or the Beyblade. **Famosa** is a Spanish producer that has 60% of own manufactured and 40% of external licensed products and is the owner of Nenuco.

Video Games⁷: This type of indirect competition occurs essentially in the same places as other traditional toys. In terms of consoles and its games, and also computer games

and consoles accessories, the market in Portugal totalized €98.7 million in 2010 and was dominated by: **Nintendo** Wii has the largest worldwide market share in terms of consoles sales with 43% of the entire market. Following, is **Sony** Playstation 3 with a market share of 24%. **Microsoft** presents products essentially focused on pc games.

10. TOWS Analysis

In order to achieve success in the toy sector every company must assure a superior capacity to innovate and to rapidly introduce new products in a market where the constant change in consumer needs and requests are key⁸. S4Y R&D department superior capacity to develop new products (the company launched 72 new toys which translate to an average superior to one new product launched every month) may be used as a major differentiation attribute to address the always changing customer requests and some of the market threats. Moreover, S4Y has been proving, both in the internal and external market, that is able to use its research/development strengths to address the market opportunities and the new trends that might appear in the future.

The propensity of S4Y to present new and innovative toys that at the same time presents a lower price than its competitors and also the ability to use dumping practices by reducing its profit margin, in order to reduce competition (e.g. during the introduction of the Volcano toy the company entered in the market with a price 100% inferior to its competitors, which led some of them to exit the market), gives the company the power to battle against the market threats, see *Appendix 9 – SWOT Analysis*.

In an industry characterized as one driven by both research & development, S4Y main competitive advantage is based in the extremely superior capacity of its R&D department to rapidly launch new products at reduced costs, which are prepared to address the ever changing tastes of their potential customers.

11. Industry Analysis (Porter's Five Forces)

Threat of new entrants (Medium): The toy industry does not present any barrier to entry, however there has been a growing interest from the European Union to preserve toys safety through the creation of safety standards. Accordingly the toys' manufactures must ensure product traceability and must run occasional security tests on toys themselves. In July 2011 the Toy Safety Directive 2009/48/EC was implemented in order to enforce the European Union measures on toy safety and to assure highest levels of health benefits on toys produced in or imported to European Union⁹. The fact that the industry is characterized by low switching costs for both clients and suppliers, and by sustainable growth over the past years, makes it highly attractive for new competitors. However for the great majority of companies there are high fixed costs associated with infrastructures, thus decreasing the threat of new entrants.

Threats of substitute products (High): Main substitutes are all other traditional toys for the age 5-14 and video games and there are no switching costs worth to mention. Both substitutes represent a great threat in the sense that there are a large number of possible choices available in the traditional toys market with different prices and video games have been experiencing an increase in terms of popularity over the last few years.

Bargaining power of buyers (High): Large retailers are the main buyers which gives them the power to decrease the profit margin of S4Y. On the other hand, the individual final consumer may be assessed has having medium power since there are a large number of buyers which grants a smaller power division to each one. However, considering the final consumer as a whole its bargaining power increases due to the inexistent switching cost. Moreover, toys are not considered to be a primary necessity which ultimately increases the buyer power.

Bargaining power of suppliers (Low): S4Y does not purchase large quantities of materials from the same supplier, there is an extreme diversity of suppliers available in the market and the large majorities are small enterprises. Furthermore, the switching costs of changing from one provider to another are rather low.

Rivalry (High): There are a high number of competitors in the market, some with a much higher level of marketing spending and presenting an accurate capacity to expand worldwide. Even though S4Y presents a competitive advantage through innovation, the competition in the toy industry is extremely harsh.

12. Country Selection

Given the actual financial crisis it is crucial that firms are capable of spreading the risk through the diversification of countries in which they operate. S4Y main motivations to internationalize are linked both with risk minimization and sales expansion. Accordingly the company believes that the United Kingdom is one of the best choices to pursue those objectives, mainly due to its market size and language. However, in an increasingly competitive international environment where resources are scarce, it is crucial that companies are able to accurately assess the countries entering order and to determine the investment level that they are willing to spend to increase operations. Properly defining the operations market may increase the level of survival rate in the first year of activity which is crucial for small companies like S4Y.

Therefore, the most important criteria for S4Y to analyze are: 1) the market attractiveness in terms of size, growth and if it provides the right platform/conditions for the development of the internationalization strategy to other countries; 2) which are the countries that have more population in the age 5-14, a higher propensity for the population to increase and analyze which countries present a higher GDP per capita;

Table 1 - Criteria for Country Selection

Toy Market Top 10 Countries (2009)	Market Size		Growth Rate		Population Age 5-14		Population Growth		GDP per capita (PPP)		Total Score
	30%		25%		15%		15%		15%		
	Score	Weight	Score	Weight	Score	Weight	Score	Weight	Score	Weight	
Brazil	3	0,9	5	1,25	5	0,75	5	0,75	2	0,3	3,95
United Kingdom	4	1,2	4	1	3	0,45	3	0,45	4	0,6	3,7
China	4	1,2	4	1	5	0,75	3	0,45	2	0,3	3,7
Australia	2	0,6	5	1,25	2	0,3	5	0,75	5	0,75	3,65
United States	5	1,5	0	0	5	0,75	4	0,6	5	0,75	3,6
France	3	0,9	4	1	3	0,45	3	0,45	4	0,6	3,4
Canada	2	0,6	5	1,25	2	0,3	4	0,6	4	0,6	3,35
India	2	0,6	4	1	5	0,75	5	0,75	1	0,15	3,25
Germany	3	0,9	4	1	3	0,45	0	0	4	0,6	2,95
Japan	4	1,2	0	0	4	0,6	0	0	4	0,6	2,4

*Data and respective sources that allowed the rating and scoring are present in Appendix 10.

Table 1 shows Brazil and the United Kingdom as the most viable countries for an international expansion, which corroborate the intentions of the firm country selection. Occupying the 4th position in the global toy market size rank, with a growth rate of 4,6%, this country seems to be the most striking opportunity for S4Y to internationalize since it is already present in Brazil. Moreover, it has the lower top corporate tax rate when compared to other countries¹⁰; it is located within a relatively low distance from Portugal and also important the English language and British culture reduces the necessity of costly product changes and adaptations which will provide a bridge in terms of sustainability of the internationalization strategy to other countries.

13. United Kingdom Analysis

The United Kingdom (UK) presents a GDP around €1,6579^{iv 11}, a moderate inflation rate of 2,2%¹² and a population of 65.35 million¹³. It presents a positive political risk classification of “A” and the government first priorities are the deficit reduction and the

^{iv} Nov.2011 Exchange Rates

development of the British economy¹⁴. Regarding business regulation the country tries to use an efficient framework concerning the intensity of competition and the imposition of anti-monopoly policies. There are no restrictions to business establishment, foreign investors will receive the same treatment as domestic business and the State guarantees the investment protection and allows the free repatriation of profits. UK presents high labor market efficiency and a qualified labor force, as well as a competitive and transparent financial system¹⁵. National currency is the Pound Sterling (0,88574 £ = €1 , monthly average, November 2011)¹⁶.

UK is a member of the most relevant trade, political and economic unions such as the European Union, OECD, Commonwealth and ONU, IMF, and WTO. As a member of the European Union the UK takes part in a trade union characterized by the free movement of people and products between member states and shares a common trade policy regarding other countries. Nevertheless there is an increased financial burden of VAT (value-added tax) which recently increased from 17,5% to 20%¹⁷.

Government is positively trying to increase the awareness of issues concerning the environment and greener life. The most important environmental trends currently followed in the UK are linked with recycling and reducing waste, energy saving and generation, greener travel and leisure and climate changes/protecting the environment¹⁸.

See *Appendix 11 – UK PESTEL Analysis*.

14. United Kingdom Toy Industry

Market structure: The UK is the 4th largest toy market worldwide, with a total market size in 2009 of €3185 million^v, which represented a 5,4% of worldwide market share¹⁹. Even after the impact caused in the economy due to the loss of over 800 Woolworth

^v Nov.2011 Exchange rates

stores in December 2008, and after a global negative toy market growth in 2008, the country occupied the first position in the European Union toy market 2009 sales with 20,5% of market share²⁰, see *Appendix 12- UK Toy Industry Data*.

Market Segmentation: London is the capital and the most populous city with 8.615 million, followed by Birmingham 2.296 million and Manchester 2.247 million²¹, and in 2009 was expected to contribute to 1,19% of the world total traditional toys market²².

In 2009 was estimated that infant-preschools were leading the way, in the toys & games market, grabbing 23,3% of market share, followed by ride-ons and dolls with 22,5% and 10,9%, respectively²³. Toy shops sold the highest amount of toys conquering a market share of 33,8%, followed by non-toy specialist stores with 26,9% and super/hypermarkets with 20%²⁴, see *Appendix 12- UK Toy Industry Data*. The most relevant toy retailers, specialists and non-specialists, are: Smyths, Hamleys, Argos, Asda, WH Smith, Hobbycraft, Alworths, HMV, TK Maxx, Toy Master, Sainsbury's, John Lewis, Morrison's, AIS, Tesco, Toys"R"Us, Early Learning Center, The Entertainer, Toy Town and Mothercare²⁵. Finally, North West, East Midlands, Kent and the Thames Valley/Heathrow Airport²⁶ are important manufacturing cluster areas.

Market trends: The sales pattern is characterized by an enormous increase in the Christmas period and by two minor peaks in the Easter and in the end of scholar year periods²⁷. London Olympic games are expected to increase consumption, however, in terms of consumer current perceptions, influenced by the austerity measures, the consumer confidence index is reaching historical minimums and in October 2011 it reached the score of -32 points²⁸, which may cause a drastic reduction of the private consumption affecting every sector of the economy. Concerning the marketing tendencies, the London Toy Fair is the largest dedicated toy, game and hobby exhibition

in the UK, and some of the most important magazines in the sector are the Toyworld, Toys&Playthings and Toy News. The use of the Lion Mark, a logo that certifies the toy was made by a member of the British Toy & Hobby Association (BTHA) respecting high quality and safety standards is also evolving as a differentiation strategy.

Market rivalry: Concerning indirect competition, the leading companies for traditional toys are the ones also found in Portugal which are mainly Hasbro and Mattel. The main direct competition faced by S4Y in the UK toy market will come from brands such as, National Geography, Blast Lab, John Adams, Horrible Science, Wild Science, 4M, Edu-Science, Interplay, Clementoni, and Trends UK. **Clementoni, 4M, and Edu Science** present similar strategies to the ones used in Portugal. From the remaining competitors the ones that present most similar products to the ones offered by S4Y are: **John Adams** is a respected player in the market and Action Science is the sub-brand that will directly compete with S4Y presenting products from electronics to environmental science. **Richard Hammond/ Blast Lab** is a smaller brand sponsored by BBC, with the name of a recognized national TV superstar that presents products essentially based in chemistry experiments. **Wild Science** is also one of the major players of the market and its range of products goes from boys and girls science, cosmetic science, wild science to eco science, see *Appendix 13- UK Direct Competitors - Price Comparison*.

15. Internationalization – Mode of Entry

The decision and procedures to enter in a specific market must be aligned with the overall firm strategy, taking into consideration the host market configuration and considering the level of international experience of the company. As the initial strategy, an exporting strategy supported by e-commerce will bring more value to S4Y than other internationalization patterns such as FDI, licensing, franchising or alliances in the first

two years of operations, mainly due to two major factors: 1) UK has a minimum wage two times higher than Portugal which would increase the labor costs in case of foreign production; 2) Since both Portugal and UK are inserted in the European Union there is an absence of tariffs between the two countries which decreases the costs of exporting.

Regarding the export mode form, in the case of S4Y the two most advantageous ways are foreign indirect export and direct export. Foreign indirect export involves a local intermediary, presents a lower cost and financial risk and gives access to the intermediary local market knowledge. However this type of entry mode also raises some issues and the major problems are linked with lower margins and lack of operations control. The intermediaries often have more than one product, so there is a tendency to favor the ones that present them with higher profit margins. At the same time they are not obliged to present market data to the exporter. These two factors obviously put a lot of pressure on the exporter for constant foreign operations supervision. On the other hand, direct exporting carries the problem of lack of market knowledge; however it allows a much higher level of control to the exporter in all fields, negotiations, customer contract, technical interaction and marketing policies (Welch et al., 2007).

Therefore, the company should focus its initial strategy on direct exports for large retailers based on a S4Y branch office established in the country, thus increasing operations control and maximizing the profit margins. The implementation team should have expatriates, providing firm and operations superior knowledge and experienced host country employees with market know-how thus decreasing the problems arising from the lack of market knowledge. In a first stage the company may use its current relationship with Toys “R” Us in Portugal, in order to sell its products on this large retailer first, and gradually expand its products offerings to others. Finally the company

needs to grant the BTHA certification and establish partnerships with science/toys museums and with a renowned science university, in order to guarantee product certification thus catalyzing differentiation, see *Appendix 14-Potential Partnerships*.

When analyzing the competition faced by S4Y in the educational scientific toys niche in the UK market, the major gap that should be explored by the company is its capacity to present toys related with renewable energy sciences since the currently offered products by its competitors does not focus that scientific component extensively.

In terms of location the company must establish an office in the London area due to its market size; however, in order to keep costs to a minimum, the cluster location in the Heathrow airport area would allow spillover effects and less expensive rents.

On the second phase of the internationalization strategy S4Y should hire a foreign intermediary to address British toy shops since this client segment will require superior market know-how. After the two first years, depending on the firm's success, FDI appear as a positive expansion strategy through the establishment of S4Y own stores.

Marketing Strategy

Product Strategy- S4Y should enter the market with its three best-sellers plus 25% of its product portfolio (16 products) essentially focusing the renewable energies/eco-science category. In an early stage, this strategy will decrease the costs of product adaptation and provide an accurate market research in terms of consumer preferences.

The existing products are capable of addressing the UK market opportunities without any particular changes to the core product. Nevertheless there are some adjustments and differentiation points that need to be implemented: scientific manuals, instructions and boxes/name will need to be adapted to English; products should have renowned British university logo and the BTHA Lion mark, as well as British museum tickets offerings.

Pricing Strategy- S4Y should adopt a strategic price definition for each toy based on competitors' price. This means that if there is a similar toy to those offered by S4Y already available in the market, the company should set an inferior price thus sacrificing the high margin on behalf of attracting a larger number of customers. On the other hand, if it faces no similar product competition, it can perform an increase in price considering the company increased costs mainly in terms of transportation. (e.g. Considering the Volcano toy, in Portugal is sold by S4Y at 9,99€, whereas in the UK the largest majority of existent players are using prices for toys with the same characteristics between €11,50 - €15, which means that they are selling their products at a 15%-50% higher price compared to the one charged internally. Thus, according to the strategy proposed, the company could increase this product price by 10% and still present a lower price).

Promotion Strategy-Specialized toy magazines and newspapers should be addressed focusing the fact that the toy company “established by the entrepreneur of the year 2010” is entering the market ultimately creating brand awareness. Since a large part of the revenues comes from B2B, the company should be present in showrooms and toy fairs in order to present its products. It is also important to use the partnerships with museums, universities and BTHA as a flag that certifies the quality of the product and at the same time shows the augmented value of this toy. Furthermore the company should explore other promotion tools such as: the creation of online interactive games to increase the brand awareness amongst children; a partnership with British Petroleum (BP) and The Renewable Energy Center to create new toys related with crucial environmental issues; Creation of customized toys (e.g. adapt the S4Y solar car and turn it into a British Solar Taxi); creation of an English Facebook channel to advertise the products, to announce special events and to provide a pre and after sales service.

Placement Strategy- The main focus area will be London since it represents the largest toy market in the country and after the implementation phase S4Y should expand its distribution to Birmingham and Manchester addressing large retailers in these locations. Essentially, the sales strategy should start by addressing large retailers first in order to grant a larger customers base.

16. Implementation Plan

Men

The main activities of S4Y will be linked with clients' recruitment, the definition of strategic partnerships, assuring the viability and accurate functioning of the online channel in the country. In order to accomplish these tasks the company will need to create a team composed by a country manager and a commercial salesman. S4Y has already decided on the person that will play the role of country manager; nevertheless it must assure that this person possesses advanced managing skills and superior overall knowledge about the company's operations. The role of this employee will be: the supervision of all the company's activities in UK; contracts negotiation; direct involvement in the recruitment of new clients and strategic partnerships; and the hiring of the commercial salesman on a co-decision with the CEO. The commercial salesman should be a British employee, with superior knowledge and experience in the UK toy industry, and the tasks developed will be: the creation of a network of contacts with clients and possible partners thus supporting the country manager role; conducting a monthly market performance analysis thus providing useful data about the country operations to the company management team, country manager and Portuguese R&D department; act as a connection point between the UK toy industry and S4Y; management of a small warehouse that will support the online sales channel in UK.

Concerning logistics, in order to keep the costs reduced, the supply chain management for the country should be addressed in the headquarters by the same person that it is currently in charge of the Spanish market logistics, and the R&D department should be used to make the product adaptations, mainly concerning its language. Afterwards, by using the market data compiled by the commercial salesman the R&D team will be responsible for the development of new products adapted to the British market needs.

Money

First month main costs will be associated with promotion and personal contact with clients in the London Toy Fair, €5000, and business trips. At this stage, the CEO and the country manager should be the ones involved in the toy fair, embracing at the same time the opportunity to negotiate an office renting contract. This will contribute to an increase in costs of one business trip for two persons and respective accommodation.

The posterior costs will be directly related with personnel, office rent (small office with two people capacity and a small room/warehouse to provide assistance to the e-commerce platform), operational equipment, telecommunications and business trips. The contract of the country manager, taking into consideration that this is a Portuguese worker, should involve a fixed wage of 1500€, plus house expenses, and the commercial salesman contract should involve a salary of 1400€. Business trips and accommodation costs at this stage include additional quarterly travels by the CEO in order to analyze the country operations and to provide on field expertise.

If in the post-entry stage the company decides to expand its operations by opening own stores, the main additional expenses will be linked with the space rents, one employee per store, administrative and increased transportation costs, see *Appendix 15-Implementation Costs Prediction*.

Minute

Table 2 : Implementation Plan			
	#	Activity	Dependency
Pre-Entry	1	International Implementation Plan Definition	
	2	London Toy Fair	
	3	Contact AICEP, BTHA, TRA, and UK Trade & Investment	
	4	Hire sales representative	2
	5	Competitors Analysis (On-site)	2; 3; 4
	6	Partnerships Analysis (On-site)	3; 4
	7	Partnership Agreements	6
	8	Legal and Administrative requirements	3
	9	Find office to rent/ office preparation	
	10	Product Portfolio Definition	5; 6
	11	Product Adaptation (Language)	10
	12	Cost and Sales Forecast	1 to 10
Entry	13	Commercial activity Launch	1 to 12
	14	Monitoring Operations and Activity reports	13
	15	Develop new Partnerships	14
	16	Address new clients	14
Post-Entry	18	New products development	14
	19	Seek new clients and partnerships	14
	20	Monitoring Operations and Activity reports	18; 19
	21	Establishment of own stores and warehouse	20
	22	Hire sales representative to address toy shops	21

See *Appendix 16 –Detailed Implementation Schedule*

Memo

	Objectives	Measurement	Target	Initiative
Financial	Increase sales revenue; Risk minimization	Sales revenues; External sales volume	50 % of total revenues resulting from the external market	Direct export strategy based on product differentiation supported by local partnerships
Customer	Create brand awareness	Market share; Clients market research	> 80% awareness on retailers, and > 20% awareness on final consumer	Participation in International Fairs; Develop promotion channels
Internal	Establish local office; Establish local partnerships	Office Existence; Number of strategic partners	Establish Office in the London and partnerships with museums, university, and BTHA	Search strategic position for office; Recruit a British commercial salesman to boost partnerships agreements
Learning	Quality increase; Innovation	Number of defects; International awards won	Decrease by 90% the number of defective products; Parents' choice awards	Implementation of ISO standards; Participation in international fairs and increase the R&D department

17. Contingency Plan

As mentioned before, monthly monitoring analysis must be performed, and as so in the beginning of the second year, the company must address if the monthly revenues growth will be enough to recover the first year investment and if is enough to cover the future monthly costs. If this is not the case, the company must reorganize its strategy. One way of addressing the problem would be to fire the employees involved in the external operation and turn it into an indirect exporting strategy by establishing an agreement with a sales representative. This would allow a decrease in costs since the company would only need to pay a fee according to the sales volume and, at the same time, would not close the door for internationalization in this country.

18. Conclusions and Recommendations

United Kingdom market size, developed economy and high purchasing power of its inhabitants, lead me to believe that the country represents an excellent opportunity for Sience4you to internationalize its operations. This market will function as an entry point into Anglo-Saxon culture allowing a bridge between Sience4you and several other countries, which is crucial for a company that is looking to spread its risk and to increase revenues.

It is my personal opinion that Sience4you business model has a great probability of success in the United Kingdom, mainly because it aligns low operational costs with differentiated products. However, the company must not forget that constantly increasing partnerships and toy differentiation components, as well as keeping a tight control structure sustained by strict reporting rules and continuously improving its R&D capacity are key points for success in this international operation, mainly because it will directly influence the degree of brand awareness and acceptance.

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

Appendixes

SME Competitiveness: Internationalization Strategy

“Internationalization Process of Science4you to the United Kingdom”

Francisco Fonseca e Silva

Number 683

Master in Management

A project carried out on the Strategy major, under the supervision:

Professor (s):

Sónia Dahab

Filipe Castro Soeiro

January, 2012

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Appendix 1 – Science4you CEO Profile²⁹



Miguel Pina Martins, 26, is the CEO of Science4you. In June 2007, the entrepreneur graduated from ISCTE with a brilliant GPA in economical sciences and decided to work in investment banking. However, in November 2007 he comes to the decision of quitting his job in order to embrace his final university work project, the Science4you business plan. Only two months after in January 2008 he creates the company, the

beginning of what would be a successful journey. Nowadays, the role of the CEO goes from hiring suppliers, establishing strategic partnerships and sales contracts, funding and internationalization decisions, to being part of the assembly team, if necessary, when the peak of orders arrive.

Personal and Company Awards:

- 2011 – European Enterprise Awards – Internationalization category at a national level (1st Prize)³⁰;
- 2010 - European Commission Entrepreneur of the year ;
- 2009 – FINICIA Young Entrepreneur Award.³¹

Appendix 2 – Science4you Products Portfolio³²

	Product	Price		Product	Price
EcoScience	Wind Power	34,99 €	Quiz	Quiz4you Science - Level I	4,99 €
	Hydropower	34,99 €		Quiz4you Science - Level II	4,99 €
	First steps in Ecology - Plants*	9,99 €		Quiz4you Portugal History	4,99 €
	Solar Power in Cars	19,99 €		Quiz4you Dinosaurs	4,99 €
	Solar Power in Boats	19,99 €		Quiz4you Human Body	4,99 €
	Fuel Cell	129,99 €		Quiz4you Astronomy	4,99 €
	Climate Change	9,99 €		Quiz4you Geography	4,99 €
	Ecological House	129,99 €	Sid Toys	The plants science	9,99 €
	Solar Kit 6 in 1*	9,99 €		The sound science	9,99 €
	Solar House	24,99 €		The Chemistry Science	9,99 €
Science	Chemistry 200	9,99 €	Sid Science Books	Stickers Book	4,99 €
	Chemistry 500	31,99 €		Activity Books	4,99 €
	Meteorology	12,99 €		The senses	5,99 €
	The Sun Science	9,99 €		Keep Healthy	5,99 €
	First Steps in Geology - Volcano*	9,99 €		The muscles	5,99 €
	First Steps in Geology - Minerals	9,99 €		The brain controls everything	5,99 €
	First Steps in Science	34,99 €	Scientific Puzzle	Bones and Muscles Puzzle	6,99 €
	Engineering	9,99 €		European Map Puzzle	6,99 €
	Electronic 500	31,99 €		Solar system Puzzle	6,99 €
	First Steps in Science - Sound	9,99 €		Human Body - Organs Puzzle	6,99 €
	First Steps in Economy	9,99 €		Food Balance Wheel Puzzle	6,99 €
	Mancala	21,99 €		Portuguese Map Puzzle	6,99 €
	Gold and precious stones	9,99 €		Recycling Puzzle	6,99 €
	Dynamo Car	14,99 €	Magic4you	Science	5,99 €
	Brine shrimp Biology	9,99 €		Illusion	5,99 €
	Pyramids construction	9,99 €		Mummy Balance	5,99 €
	Criminal Investigation - Fingerprints	14,99 €		Magnetic Dice	5,99 €
	Physics in Cars	13,99 €		Magic Box	5,99 €
	Physics in Cranes	13,99 €	3D Monuments	Belem Tower 3D	9,99 €
	Telescope	19,99 €		Empire State Building	9,99 €
				3D Eiffel Tower	9,99 €
3D Puzzle	Wooden Shuttle	6,99 €	Brainteasers	Alfa	5,99 €
	Wooden T-Rex	6,99 €		Beta	5,99 €
	Wooden Solar Airplane	9,99 €		Delta	5,99 €
	Wooden Triceratops	6,99 €		Omega	5,99 €
	Wooden Dolphin	6,99 €		Gama	5,99 €
	Wooden Skeleton	6,99 €			

* Science4you bestsellers

Note: Products names were translated to English based on the Portuguese names from the company's website - <http://www.science4you.pt/>

Appendix 3 –Science4you Spanish Operations

In February 2010 the company was granted an internationalization subsidy supported by QREN involving 50.000€ to be re-paid in a three years period with the main objective of helping Science4you to increase its international expansion. The international business strategy in Spain started with direct exporting to one of its Portuguese clients, FNAC (already operating in the country at the time). This relative informal strategic partnership with FNAC contributed to the diversification and development of Science4you contacts network. Presently, the company already established several partnerships with Spanish museums and is negotiating a partnership with a science university. The primary sales strategy was based in the exportation of the company Portuguese bestsellers, which granted a higher turnover for the company, indeed an increase of 100% is expected in 2011 Spanish sales compared to 2010. Science4you is currently addressing FNAC and Dideco, and is currently starting in DriverDak and Vips. Moreover, in May 2011 the company established an office in Madrid and in November opened the first Science4you store in the shopping mall PleniLunio.

Appendix 4 – Science4you Financial Indicators

Sales Evolution

Year	Sales Volume (€)	Growth rate
2008	52.919,65 *	-
2009	189.549,26 *	258%
2010	245.028,96 *	29%
2011	500.000 **	104%

* Source: According to – Relatório Balanço e Demonstração de Resultados Science4you, S.A – Nov,2011. eInforma, Informação de Empresas

**Source: Science4you Objective

External and Internal Market transfers

Year	External Market Purchases		Internal Market Purchases		External Market Sales		Internal Market Sales	
	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value
2008	76%	54.592 €	24%	17.115 €	0%	0 €	100%	52.920 €
2009	0%	0 €	100%	137.712 €	0%	0 €	100%	189.550 €
2010	29%	59.428 €	71%	147.045 €	7%	17.005 €	93%	228.025 €

Source: According to Relatório Balanço e Demonstração de Resultados Science4you, S.A – Nov,2011. eInforma, Informação de Empresas

Income Statement

Income Statement (€)			
	SNC 2010	SNC 2009	Variation 2010/2009
Sales and Services	245.028,96	189.549,26	29%
Operating Subsidies	12.235,01	5.609,58	118%
Cost of Goods Sold	83.796,38	79.742,81	5%
External Supplies and Services	92.540,17	47.901,44	93%
Personnel Costs	38.990,78	39.803,18	-2%
Other Operating Income	1.549,13	1.675,70	-8%
Other Operating Costs	857,29	845,19	1%
EBITDA	42.628,48	28.541,92	49%
Depreciation and Amortization Expenses/ Reversals	10.922,73	3.388,67	222%
EBIT	31.705,75	25.153,25	26%
Interest Income	3,73	194,54	-98%
Interest Expenses	1.539,89	396,00	289%
EBT	30.169,59	24.951,79	21%
Income tax	7.675,04	1.517,38	406%
Net Income	22.494,55	23.434,41	-4%

Source: Based on Relatório Balanço e Demonstração de Resultados Science4you, S.A – Nov,2011. eInforma, Informação de Empresas

Sales by Distribution Channel

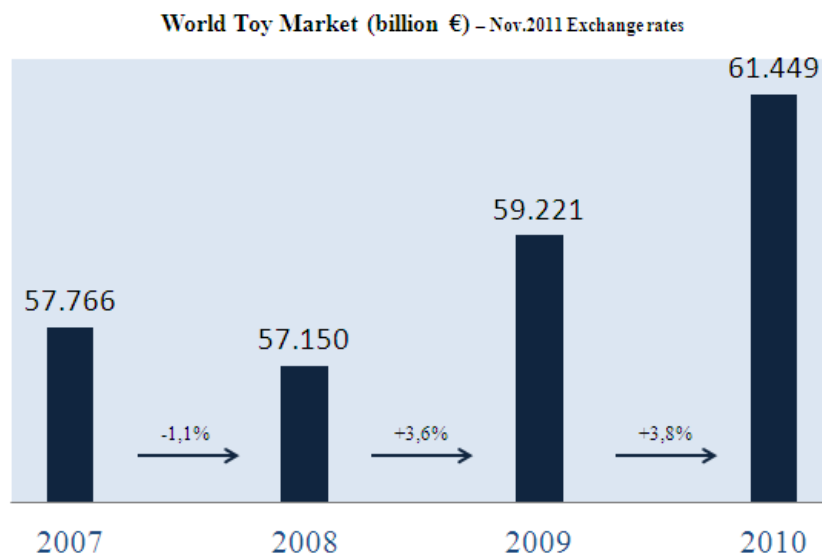
	Large Retailers*	Smaller Toy shops**	Online/ Internet***
Share 2010	75%	20%	5%

Source: Descriptive data provided by the company

Science4you Human Resource Structure

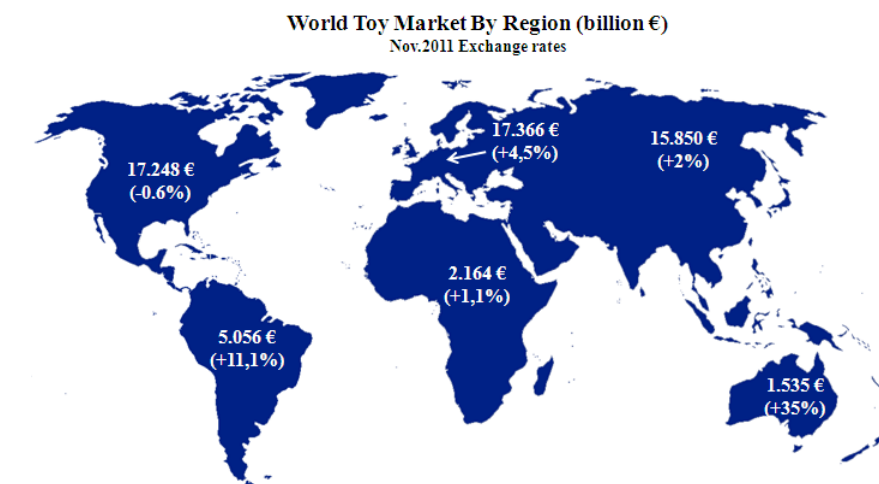
Area	Employees
Management/Economy	7
R&D	7
Stores	4
Warehouse	2
Total	20

Source: Descriptive data provided by the company

Appendix 5 – World Overview**Toys Market Size Evolution**

Source:

1) Market Value for 2007 to 2009 – The NPD Group. Presentation to ICTI, Toy Markets in the World Summary Charts – Annual 2009
 2) Market Value for 2010 - Global and China Toy Industry Report, 2010-2011

Regional Segmentation

Source: Adapted from The NPD Group.

Presentation to ICTI, Toy Markets in the World Summary Charts – Annual 2009

Note: Background image source³³

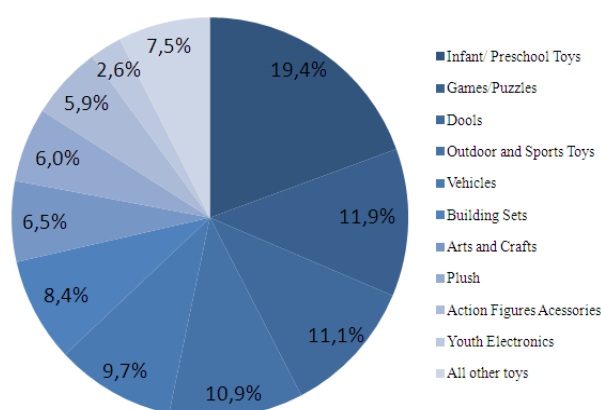
Toys Market Size Ranking

Country Rank		Country	Toy Market Size	Country Share	
2009	2008		2009 (million €)	2009	2008
1	1	United States	15868	26,8%	27,9%
2	2	Japan	4293	7,2%	7,5%
3	3	China	3654	6,2%	5,8%
4	4	United Kingdom	3185	5,4%	5,3%
5	5	France	3127	5,3%	5,2%
6	6	Germany	2523	4,3%	4,1%
7	7	Brazil	2046	3,5%	2,7%
8	8	India	1542	2,6%	2,5%
9	13	Australia	1388	2,3%	1,8%
10	12	Canada	1381	2,3%	2,1%

Source: Adapted from The NPD Group.
Presentation to ICTI, Toy Markets in the World
Summary Charts – Annual 2009

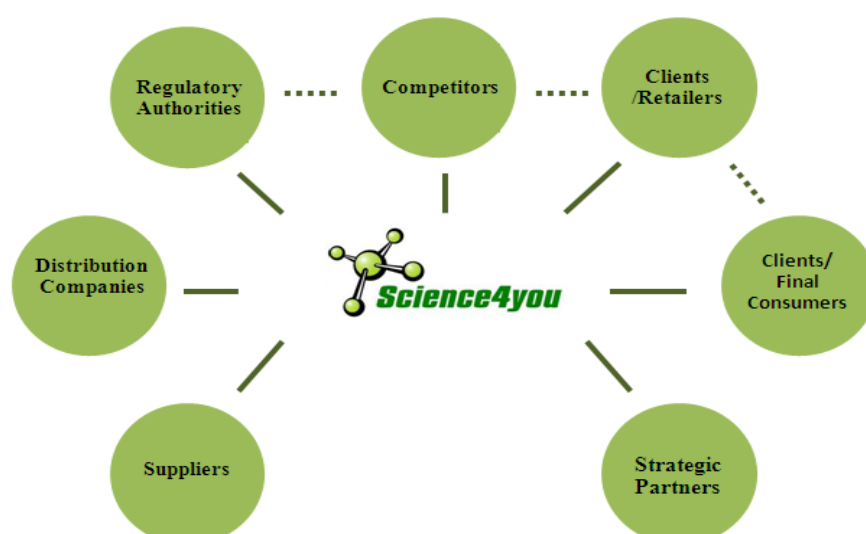
Note: Nov.11 Exchange Rates

Toy Categories in the industry's five largest European Markets 2010

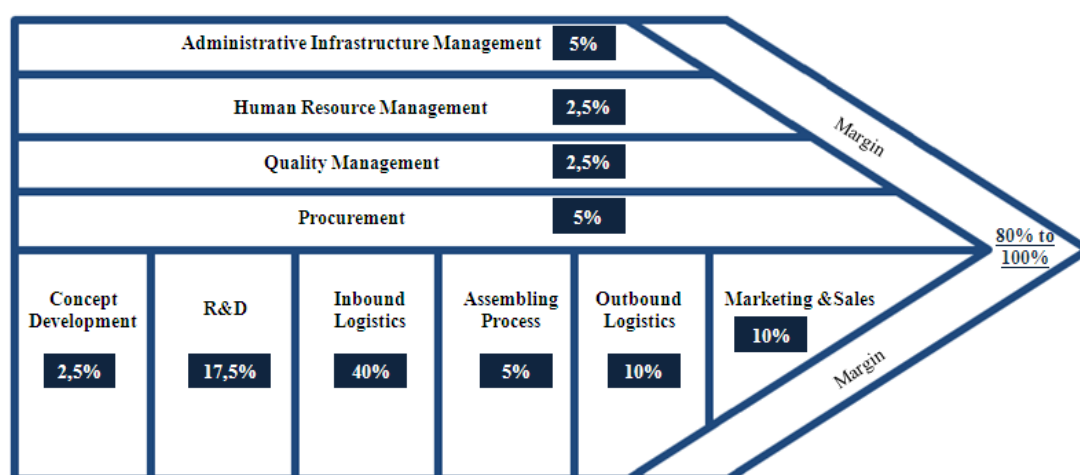


Source: Adapted from 2010 Facts and Figures Toy Industries of Europe (TIE)

Appendix 6 – Industry Mapping



Appendix 7- Value Chain in terms of Cost Contribution



Appendix 8 – Internal Direct Competitors Analysis

Competitive Assessment

		Direct Competitors					
	Science4you	4M	Clementoni	Discovery Channel	Edu Science	ItsImagical	Eurekakids
Product Extras	Colored scientific manual + Museum Tickets	Instructions contain some educational facts	n.m	n.m	n.m	n.m	n.m
Partnerships	FCUL and several museums	n.m	Science Museum (UK)	n.m	n.m	n.m	n.m
Origin	Portugal	China	Italy	USA	China	Spain	Spain
Online Store Languages	PT, EN, SPA	EN	IT, EN, GER, SPA, FR, DUT	EN	EN	SPA, PT, IT, EN, FR, GER	IT, EN, GER, SPA, FR, DUT, PT
Entertaining Impact (1-5)	4	4	4	4	4	4	4
Educational Impact (1-5)	5	5	5	5	5	5	5

*n.m – not mentioned in the respective website

Price Comparison

First Steps in Geology - Volcano			
Brand	Retailer	Toy	Price
Science4You	Fnac *	Vulcões - Os primeiros passos na Geologia	9,99 €
4M	Fnac *	Vulcão Submarino	10,47 €
4M	Fnac *	Kit Vulcão - Experiências	13,16 €
4M	Fnac	Combo Dino e Vulcão	24,90 €
Discovery Channel	Continente **	Vulcões - Descobre os vulcões	24,99 €
First Steps in Ecology - Plants			
Brand	Retailer	Toy	Price
Science4You	Fnac *	Plantas - Os primeiros passos na Ecologia	9,99 €
4M	Fnac *	Green House	14,95 €
Edu Science	Toys "R" Us ***	Plantas Carnívoras e Exóticas	15,99 €
Edu Science	Toys "R" Us ***	Jardim de Cactus	15,99 €
Clementoni	Continente **	A Ciência na Estufa	19,99 €
Edu Science	Toys "R" Us ***	Estufa Grande com prensa de plantas	29,99 €
Solar Kit 6 in 1			
Brand	Retailer	Toy	Price
Science4You	Fnac *	Kit Solar 6 em 1	9,99 €
4M	Fnac *	Robô Solar - Green Science	24,50 €
4M	Fnac *	Solar Rover - Green Science	24,90 €
Buki	Toys "R" Us ***	Veículos Solares - Energia Solar	29,99 €
ItsImagical	Imaginarium****	Mecanic Solar Kit 6x1 - Kit construção brinquedos solares	14,95 €
EurekaKids	Eurekakids.net	EurekaKids Solar energy	34,95 €

Note: The previous table intends to present a price comparison between Science4you bestsellers and similar products offered by its competitors.

*Source: <http://www.fnac.pt/>

**Source: On-site observation to Continente located in Centro Comercial Colombo

***Source: On-site observation to Toys "R" Us located in Centro Comercial Colombo

****Source: <http://www.imaginarium.pt/>

Appendix 9 – SWOT Analysis

Internal Factors	Weight	Rating 1-5	Score	Observations
Strengths				
Products portfolio	0,1	5	0,5	Diverse portfolio aligned with the current market trends
R&D capacity	0,25	5	1,25	Launching speed - 72 new toys launched in four years
Price	0,2	5	1	Lower price than competition
Strategic partnerships	0,2	5	1	FCUL gives accreditation and museums contribute with free tickets offers inside the toys
Product differentiation	0,15	3	0,45	Scientific educational manual inserted inside the toy and free museum tickets
Complement products	0,1	3	0,3	The formation component of the company allows a higher dissemination of the toys
Weaknesses				
Position in the external market	0,1	4	0,4	Low brand awareness
Production capacity	0,25	4	1	Only two employees in the assembly line
Quality management control	0,2	4	0,8	No quality control check during the assembly of the finished product
Protection of intellectual property	0,05	5	0,25	Science4you does not use patents to protect their products specifications
Dependence on large retailers	0,2	4	0,8	Revenue mainstream comes from large retailers
Promotion/Market research	0,2	4	0,8	Low marketing expenditure and effectiveness
External Factors	Weight	Rating 1-5	Score	Comments
Opportunities				
European Union industry expansion	0,4	5	2	Revenues growth in the toy sector in the European Union
Parents awareness for the need of toy educational value	0,25	4	1	Parents are paying more attention to the educational value that a toy possess, instead of looking only at the entertainment impact
Clients presence in external markets	0,35	4	1,4	Toys "R" Us , FNAC, El Corte Inglés, Jerónimo Martins and Auchan have operations in different countries
Threats				
Substitute products	0,4	5	2	Large number of toys available in the market for the ages of 5 to 14 years old
Competitors economies of scale	0,35	3	1,05	Some competitors present a higher capacity to achieve economies of scale
Process replication	0,05	1	0,05	There is no protection from patents, and since the company is not a producer the overall business process might be rather easy to replicate
Competitors brand awareness/First mover advantage	0,2	2	0,4	It may be difficult to gain market share

Note: The criteria used in the construction of the SWOT analysis was the following: Each internal or external factor as a combined weight of 1 (100%), and the weight granted to each individual component of each factor is based on the importance that it has. Thus a higher weight on an individual component means that the company has a higher strength/ threat/weakness/ opportunity on that specific factor. The rating 1 to 5 concerns the extent to which the company is being influenced by each individual factor (1- not very relevant; 5-very much influenced). These two measures combined give the overall score of each individual factor, thus allowing to analyze which are strengths/ threats/weaknesses/ opportunities that will affected the company the most.

Appendix 10 – Toy Market Top 10 Countries Data

Market size Rank 2009	Country	Market size 2008 (million EUR)	Market size 2009 (million EUR)	Market growth 2008-2009	Population Age 5-14 (millions)	Population Growth	GDP per capita (PPP) (EUR)	Distance from the company's country (Km)	Cost of Labor - Minimum Wage (EUR)	Maximum corporate tax rate
1	United States	15972	15868	-0,7%	41,190	0,963%	34.819	5733	927	35%
2	Japan	4296	4293	-0,1%	11,398	-0,278%	25.081	11.138	1177	41%
3	China	3340	3654	9,4%	175,146	0,493%	5.606	9656	n/a	20%
4	United Kingdom	3045	3185	4,6%	7,001	0,557%	25.671	1584	1172	27%
5	France	2940	3127	6,3%	7,620	0,500%	24.417	1452	1338	34,40%
6	Germany	2352	2523	7,2%	7,502	-0,208%	26.335	2310	n/a	33%
7	Brazil	1543	2046	32,6%	34,345	1,134%	7.967	8120	192	34%
8	India	1431	1542	7,8%	246,925	1,344%	2.582	7770	30	33,99%
9	Australia	1073	1388	29,4%	2,797	1,148%	30.245	18.047	1756	30%
10	Canada	1199	1381	15,1%	3,685	0,794%	29.065	5383	1153	18%

*Source: Market size Ranking, Market size for 2008 and 2009 are based on information from The NPD Group. Presentation to ICTI, Toy Markets in the World Summary Charts – Annual 2009

**Source: Population Age 5-14 is based on Population Division. World Population Prospects: The 2010 Revision. United Nations, Department of Economic and Social Affairs

*** Source: Population Growth and GDP per capita are based on the Central Intelligence Agency (CIA) – The World Factbook.

****Distance from the company's country of origin (distance between capitals) is based on <http://www.mapcrow.info/>.

***** Cost of Labor is based on information from the International Labour Organization. Global wage database 2010 and corresponds to the year 2009.

***** Maximum corporate tax rate is based on information from the 2011 Index of Economic Freedom. The Heritage Foundation & The Wall Street Journal

Note: Nov.11 Exchange Rates

Criteria for country Score

Criteria	Market Size 2009 (million EUR)	Growth Rate (%)	Population Age 5-14 (millions)	Population Growth (%)	GDP per capita (PPP) EUR
Attractiveness					
1- Very Low	<499	< 1	< 2	< 0,25	< 4.990
2 - Low	500-1499	1 to 2	2 to 4	0,25 to 0,4	5.000 to 9.990
3 - Medium	1500-2999	2 to 4	4 to 8	0,4 to 0,75	10.000 to 19.990
4 - High	3000-4499	4 to 8	8 to 16	0,75 to 1	20.000 to 29.990
5-Very High	> 4500	> 8	> 16	> 1	> 30.000

Appendix 11 – United Kingdom PESTEL Analysis

Political - The United Kingdom of Great Britain and Northern Ireland (United Kingdom) is governed under a constitutional monarchy and a parliamentary system based on democracy³⁴. The recent elections resulted in a coalition government (conservatives and the liberal democrats) with David Cameron as the prime minister, and currently the country presents a positive political risk classification of “A”³⁵. The newly elected government main priorities are to reduce the deficit, partially due to an increase in the government’s size and spending and to restart the British economy³⁶.

Perceived as one of the main problems for doing business in the United Kingdom is the inefficiency of government bureaucracy³⁷, a fact that is mainly associated, with an excessive load of government imposed regulations, and carelessness government spending. Nevertheless, corruption is perceived as minimal and according to the Transparency International’s Corruption Perceptions Index for 2009 the country occupied the 17th position of least corrupt country worldwide³⁸.

The United Kingdom is a member of the most relevant trade, political and economic unions in the world, such as the European Union, OECD, Commonwealth, ONU, IMF, and WTO.

Economic - The United Kingdom presents a GDP around €1,6579^{vi 39}, and a moderate inflation rate of 2,2%⁴⁰. In terms of business regulation the country tries the most to use an efficient framework concerning the intensity of competition and the imposition of anti-monopoly policies. Presents high labor market efficiency and a qualified labor force, still, the United Kingdom presents an increasing unemployment rate of 7,6%⁴¹.

^{vi} Nov.2011 Exchange Rates

Even with the events in 2008 concerning the Northern Rock bank collapse, the country managed to recover and evidences an efficient, competitive and transparent financial system⁴². The national currency is the Pound Sterling (0,88574 £ = €1 , monthly average, November 2011)⁴³ and in 2010 the country was the 6th largest importer and the 10th largest exporter worldwide⁴⁴.

Social - The United Kingdom is located off the north-western coast of continental Europe with a population of 65.35 million⁴⁵. English is the official language and the Anglican religion the official religion. Between 2006-2010 the country's population has been increasing at a steady growth rate of around 0,5%⁴⁶ and the larger age class is 25-49 years old which accounts for 34,9% of the total population⁴⁷.

The country occupies the 32nd position regarding the Education Index⁴⁸ presenting an adult literacy rate in both sexes of 99,0%⁴⁹. The country shows the second highest share of pupils and students in the EU-27 total, only surpassed in numbers by Germany⁵⁰.

According to the World Bank indicators, the United-Kingdom presents one of the most elevated numbers for refugees in the European Union which may contribute to increase the social inequalities. The population is extremely centered in the urban areas and the London urban area alone has 8.615 million inhabitants⁵¹.

Technological - United Kingdom is characterized as being an innovation-driven economy and it occupies the 8th position in terms of technological readiness and the 13th in terms of innovation worldwide⁵². Mainly contributing to these positions are the increased availability of new technologies and the high number of internet users (85%). Regarding the innovation success, the main reasons are linked with extreme quality of the scientific research institutions and university-industry collaboration in terms of R&D.

Environmental - The country government actively uses central authorities that are trying to positively increase the awareness to the issues concerning the environment and greener life. The Department for Environment, Food and Rural Affairs (DEFRA) is a government department that aims at the creation of policies and legislations in diverse areas such as the natural environment and sustainable green economy. The most important environmental trends currently followed in the United Kingdom are linked with recycling and reducing waste, energy saving and generation, greener travel and leisure, and climate changes/protecting the environment⁵³. The government is obviously committed in preventing the environment deterioration and in 2010 approved the “Energy Bill” that aims at supporting and increasing energy saving across the country, approved the “Feed In tariff” to reward those capable of producing their own clean energy and finally in 2011 the government launched the “Renewable Heat Incentive”, in order to encourage home owners to use clean energies to sustain the houses heating⁵⁴.

Legal - The four principal sources of UK law are legislation, common law, European Union law and the European Convention on Human Rights⁵⁵.

As mentioned before, as a member of the European Union the United Kingdom takes part in a trade union characterized by the free movement of people and products between member states and shares a common trade policy regarding other countries. Nevertheless there is an increased financial burden of VAT (value-added tax) which recently increased from 17,5% to 20%⁵⁶. There are no restrictions to business establishment and there are no special conditions imposed to any type of business. Foreign investors will receive the same treatment than domestic business and the investment code it is usually transparent and efficient. There are five duty-free zones in the United Kingdom, namely the Prestwick airport near Glasgow and the Liverpool,

Sheerness, Southampton and Tilbury ports in England⁵⁷. Furthermore, regarding foreign investment the State guarantees the investment protection and allows the free repatriation of profits.

Finally, the United Kingdom approved the 2006 Companies Act that basically functioned as a legislation reform in order to simplify the business environment and the society's creation⁵⁸.

Appendix 12 – United Kingdom Toy Industry Data

Top 10 factors people consider when buying toys⁵⁹:

1) Toy safety; 2) Educational toy; 3) Price; 4) Durability of the toy; 5) Well designed; 6) Toy the child specifically wanted; 7) The brand/manufacturer's name as well known; 8) The toy was unlikely to go out of fashion in the near future; 9) It was a toy you could add to or buy accessories for (e.g. Lego, Barbie); 10) It was a toy suitable for various age groups.

Market Shares Evolution in Europe

Country	Market Share (%)					
	2004	2005	2006	2007	2008	2009
UK	22,8%	24,0%	23,8%	22,4%	n.a	20,5%
France	19,6%	19,6%	18,4%	18,7%	n.a	20,1%
Germany	18,1%	17,0%	15,7%	15,7%	n.a	16,2%
Italy	8,0%	7,9%	7,7%	8,0%	n.a	8,6%
Spain	6,3%	6,5%	7,4%	8,0%	n.a	7,9%
The Netherlands	n.a	4,1%	5,7%	5,5%	n.a	4,9%
Poland	2,0%	2,0%	1,5%	1,8%	n.a	2,4%
Austria	n.a	2,4%	n.a	2,0%	n.a	2,2%
Belgium	n.a	2,4%	n.a	2,7%	n.a	2,9%
Sweden	n.a	2,3%	n.a	2,9%	n.a	2,8%
Others	23,2%	11,8%	19,8%	12,3%	n.a	11,5%
Total	100,0%	100,0%	100,0%	100,0%	n.a	100,0%

Sources:

- 1) Data for 2004 and 2005 – 2006 Toy industries of Europe Facts and Figures (TIE)
- 2) Data for 2006 and 2007 – 2008 Toy Industries of Europe Facts and Figures (TIE)
- 3) Data for 2009 – 2009 Toy Industries of Europe Facts and Figures (TIE)

Distribution channels

	UK	FR	GER	IT	SPA
Department Stores*	5,6%	1,2%	12,0%	4,5%	17,5%
Discount/ Variety Stores**	5,5%	2,2%	5,2%	4,3%	2,6%
Mail order Catalogues	2,6%	1,1%	2,2%	0,1%	0,0%
Online/Internet***	5,1%	5,6%	13,3%	1,3%	0,3%
Super/Hypermarkets****	20,0%	39,9%	14,7%	38,6%	32,7%
Toy shops*****	33,8%	45,0%	41,3%	34,2%	43,0%
Video/Computer games Shop	0,5%	0,1%	0,0%	0,3%	0,1%
Other types of retailers*****	26,9%	4,9%	11,3%	16,7%	3,6%

Notes:

*Includes department stores such as El Corte Ingles, Kaufhouf, Galeries Lafayette

**Urban non-toy specialists (book shops, Cd shops, generalists)

*** Includes Companies Like Quelle and La Redoute

****Mass merchant stores such as Carrefour, Tesco, Auchan

*****Toy chains and toy shops, e.g. Toys'R'Us, La Grande Récré, Toys Center

*****Non-toy specialists shops (catalogues show rooms, market, others e.g. Argos)

Source: Adapted from 2010 Toy Industries of Europe Facts and Figures (TIE)

Market Segmentation by City 2009

City	Market (million €)	% Country	% World
Birmingham	522.37	9.73	0.33
Bradford	434.04	8.09	0.27
Bristol	228.13	4.25	0.14
Coventry	226.41	4.22	0.14
Hull	180.46	3.36	0.11
Leeds	434.04	8.09	0.27
Leicester	200.36	3.73	0.13
Liverpool	279.76	5.21	0.18
London	1879.76	35.03	1.19
Manchester	518.90	9.67	0.33
Nottingham	212.03	3.95	0.13
Sheffield	248.71	4.65	0.16

Note: The values mentioned in this table refer to the expectations and estimations of a study performed in 2008.

Source: Parker, Philip M.. 2010. The 2009 Report on Traditional Toys: World Market Segmentation by City. ICON Group International

Note: Nov.11 Exchange Rates

United Kingdom Toy Categories Segmentation

Category	% Share
Infant/ Pre-school	23,3%
Ride-ons	22,5%
Dolls	10,9%
Games and puzzles	10,9%
Activity toys	9,9%
Plush	3,3%
Other	19,3%
Total	100%

Note: This particular study refers to the toy & games market in which the toy categories are differently defined from the primary segmentation established in this work project. Thus it is important to refer that the categories are established in the study as follow:

- Activity toys - including art and craft, building sets, learning and exploration and sewing and hobby.
- Dolls -including girls' toys.

- Games and puzzles - including jigsaw puzzles and card games.
- Infant/Pre-school - including intellectual growth education toys and other infant toys.
- Plush - including soft toys.
- Ride-ons - including outdoor games and sports like driving cars, bicycles etc.
- Other toys - including toys of plastics, toys of rubber, toys of textile, die-cast miniature model toys and toys of metal. This also includes action figures, youth electronics and boy character toys, which includes small racing cars etc.

Source: Adapted from, Toy & Games in the United Kingdom: Industry Profile. 2010. Datamonitor

Appendix 13 – U.K. Direct Competitors – Price Comparison

Brand	Online retailer	Product	Price (£)	Price (€)	Main Characteristics
John Adams /Action Science	Tesco.direct	Chemistry Set	£22,97	26,79 €	Various chemical experiments
	The Entertainer	Freaks of Nature Puddle Monster	£9,00	10,50 €	Growing Insects kit
	The Entertainer	Freaks of Nature Plants with attitude	£9,00	10,50 €	Growing plants kit
	Argos UK	20-in-1 Electronics Lab	£19,99	23,31 €	Electronic science experiments
Richard Hammond/Blast	Smyths UK	Big Blast Phantastic Phun	£10,99	12,82 €	Volcano Eruptions
	The Entertainer	Blast Lab Fingerprints	£9,99	11,65 €	Fingerprints experiments
National Geographic	Argos UK	Crystal Growing Kit	£20,29	23,66 €	Growing crystals kit
	The Entertainer	Electronic Robotic Bepper	£10,00	11,66 €	Electric car - building kit
	Tesco.direct	Bug Barn	£12,97	15,13 €	Growing insects kit
Trends Uk	Argos UK	Chemistry Lab	£27,99	32,65 €	Various chemical experiments
Wild science	Tesco.direct	Wild Physic & Cool Chemistry	£19,97	23,29 €	Chemistry and physic experiments
	Toys "R" Us UK	Ant-O-Sphere 8 Pod	£12,99	15,15 €	Growing insects kit
4M	Tesco.direct	Rocket Race Car	£15,99	18,65 €	Car driven by Wind - building kit
	Tesco.direct	Wind Powered Landsailer	£18,99	22,15 €	Boat driven by Wind - building kit
	Argos UK	Science Tricks Discovery Set	£10,99	12,82 €	Scientific Experiments
	Toys "R" Us UK	Green Science Potato clock	£9,99	11,65 €	Alternative energies
	Toys "R" Us UK	Magnetic Science	£9,99	11,65 €	Magnetic science - building kit
	Toys "R" Us UK	Volcano Making Kit	£9,99	11,65 €	Volcano Eruptions
Edu Science	Toys "R" Us UK	Glowing Volcano	£12,99	15,15 €	Volcano Eruptions
	Toys "R" Us UK	Smart Lab Squishy Human Body	£19,99	23,31 €	Human anatomy discovery
Interplay	Tesco.direct	Ant World - Educational Kit	£10,97	12,79 €	Growing insects kit
	Tesco.direct	Stunt Buggy	£9,97	11,63 €	Electric car - building kit
	Argos UK	My Living World - Triop Park	£18,99	22,15 €	Growing insects kit
	Toys "R" Us UK	Triop Volcano	£9,99	11,65 €	Growing insects kit
Clementoni	Toys "R" Us UK	Carnivorous and Exotic Plants	£24,99	29,15 €	Growing plants kit
	Toys "R" Us UK	The Human Body	£24,99	29,15 €	Human anatomy discovery
	Toys "R" Us UK	Chemistry Laboratory	£24,99	29,15 €	Various chemical experiments
	Toys "R" Us UK	Electricity Science Kit	£24,99	29,15 €	Electronic science experiments
Horrible Science	The Entertainer	Violent Volcano	£6,00	7,00 €	Volcano Eruptions

Note: This table intends to show a price comparison of several products presenting similar characteristics to the ones developed by Science4you – (Nov.11 Exchange Rates)

Source: Online retailers - <http://www.tesco.com/>, <http://www.thetoyshop.com/toyshop/index.jsp>, <http://www.argos.co.uk>, <http://www.smythstoys.com/>, and <http://www.toysrus.co.uk/index.jsf>

Appendix 14 – Potential Strategic Partnerships

Museum	Characterization	Location
The Lilliput Antique Doll & Toy Museum	Toy & Childhood Museum	Brading
Brighton Toy & Model Museum	Toy & Childhood Museum	Brighthon
Flambards Experience-Victorian Village & Gardens	Toy & Childhood Museum	Cornwall
The Dock Museum	Toy & Childhood Museum	Cumbria
Tullie House Museum & Art Gallery	Toy & Childhood Museum	Cumbria
Cumberland Pencil Museum	Toy & Childhood Museum	Cumbria
The Teddy Bear Museum	Toy & Childhood Museum	Dorset
Preston Hall Museum	Toy & Childhood Museum	Durham
Hove Museum & Art Gallery	Toy & Childhood Museum	East Sussex
Museum of Childhood	Toy & Childhood Museum	Edinburgh
Scotland Street School, Museum of Education	Toy & Childhood Museum	Glasgow City
Glendale Toy Museum	Toy & Childhood Museum	Glendale
Cotswold Motoring & Toy collection	Toy & Childhood Museum	Gloucestershire
Gloucester Folk Museum	Toy & Childhood Museum	Gloucestershire
Museum of Childhood at Bethnal Green	Toy & Childhood Museum	London
Pollocks Toy Museum/ Shop	Toy & Childhood Museum	London
Worthing Museum & Art Gallery	Toy & Childhood Museum	West Sussex
Abbey House Museum	Toy & Childhood Museum	West Yorkshire
Trowbridge Museum	Toy & Childhood Museum	Wiltshire
Mills Observatory	Science Museum	Angus
Whipple Museum of the History of Science	Science Museum	Cambridge
National Museum of Scotland	Science Museum	Edinburgh
Hunterian Museum	Science Museum	Glasgow City
Milestones	Science Museum	Hampshire
Flambards Experience- Victorian Village & Gardens	Science Museum	Helston
New Walk Museum & Art Gallery	Science Museum	Leicester
World Museum Liverpool	Science Museum	Liverpool
National Maritime Museum and Royal Observatory	Science Museum	London
Science Museum	Science Museum	London
Museum of Science and Industry	Science Museum	Manchester
Dorman Museum	Science Museum	Middlesbrough
Discovery Museum	Science Museum	Newcastle
Oxfordshire Museum	Science Museum	Oxfordshire
Torquay Museum	Science Museum	Torquay
University of Cambridge	Bio Sciences	Cambridge
University of Oxford	Bio Sciences	Oxford
The University of York	Bio Sciences	York
University of Oxford	Chemistry	Oxford
Heriot-Watt University	Chemistry	Edinburgh
Queen's Belfast University	Chemistry	Belfast
University of Oxford	Earth and Marine Sciences	Oxford
Imperial College	Earth and Marine Sciences	London
University of the West of England	Earth and Marine Sciences	Bristol
University Oxford	Physics	Oxford
University of St Andrews	Physics	Scotland
University of Birmingham	Physcis	Birmingham

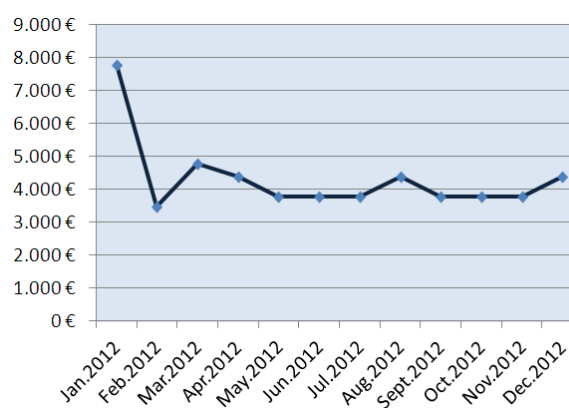
Note: The Universities presented in this table occupied the first three positions in the ranking of “The Guardian Newspaper” - <http://www.guardian.co.uk/education/universityguide>

Appendix 15 – Implementation Cost Predictions

Pre- Entry Stage (Sept. 2011 to Mar. 2012)			
<u>Activity</u>	<u>Cost</u>	<u>Units/Months</u>	<u>Total Cost</u>
London Toy Fair	5.000 €	1	5.000 €
Flight Tickets (round trip)	150 €	3	450 €
Accommodation (Hotel, Food, Travel Costs) - 3 days	450 €	2	900 €
Country Manager Wage	1.500 €	3	4.500 €
Country Manager House Rent	350 €	2	700 €
Commercial Salesman Wage	1.400 €	2	2.800 €
Heathrow Office Rent	450 €	1	450 €
Office Operational Equipment:			
Two computers	350 €	2	700 €
Other Office equipment and materials	300 €	1	300 €
Telecommunications	75 €	3	225 €
Total Pre-Entry Stage Costs			16.025 €
Entry Stage (Apr.2012 to Dec.2012)			
<u>Acitivity</u>	<u>Cost</u>	<u>Units/ Months</u>	<u>Total Cost</u>
Country Manager Wage	1.500 €	9	13.500 €
Country Manager House Rent	350 €	9	3.150 €
Commercial Salesman Wage	1.400 €	9	12.600 €
Heathrow Office Rent	450 €	9	4.050 €
Telecommunications	75 €	9	675 €
Flight Tickets (round trip)	150 €	3	450 €
Accommodation (Hotel, Food, Travel Costs) - 3 days	450 €	3	1.350 €
Total Entry Stage Costs			35.775 €
Total Implementation Costs			51.800 €

Implementation Costs Monthly Evolution

Jan.2012	7.775 €
Feb.2012	3.475 €
Mar.2012	4.775 €
Apr.2012	4.375 €
May.2012	3.775 €
Jun.2012	3.775 €
Jul.2012	3.775 €
Aug.2012	4.375 €
Sept.2012	3.775 €
Oct.2012	3.775 €
Nov.2012	3.775 €
Dec.2012	4.375 €
Total	51.800 €



Appendix 16 – Detailed Implementation Schedule

		<u>2011</u>				<u>2012</u>								<u>2013</u>		<u>2014</u>	
		Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	3Q	4Q	1S	2S	1S	2S
Pre-Entry	International Implementation Plan Definition																
	London Toy Fair																
	Contact AICEP, BTHA, TRA, and UK Trade & Investment																
	Hire sales representative																
	Business trips																
	Partnerships & Competitors Analysis (On-site)																
	Partnership Agreements																
	Legal and Administrative requirements																
	Find office to rent/ office preparation																
	Product Portfolio Definition																
	Product Adaptation (Language)																
	Cost and Sales Forecast																
Entry	Commercial activity Launch																
	Monitoring Operations and Activity reports																
	Develop new Partnerships																
	Address new clients																
	Business Trips																
Post-Entry	New product development																
	Seek new clients and partnerships																
	Monitoring Operations and Activity reports																
	Hire sales representative to address toy shops																
	Establishment of own stores and warehouse																

Appendix 17 - Start a Toy related Business in U.K.

Administrative and Legal Procedures

Administrative and Legal Procedures		
Description	Entity	Service
One-Stop Shop	Business Link - http://www.businesslink.gov.uk/bdoutg/action/home	Offers business information, support and compliance during the entire life cycle of a business
Business Registration	Companies House - http://www.companieshouse.gov.uk/	Information and guidance about the company name, registration documents, forms, fees and business rates
Social Security and Tax Registration	Business Link - http://www.businesslink.gov.uk/bdoutg/action/home	Information on taxes, returns and payroll, obligations of employers in terms of pensions and national insurance contributions
Start-up Package	British Chambers of Commerce/ Accredited Chamber Network - http://www.thebusiness-startup.co.uk/	Business Start-Up Pack which grants several benefits in terms of financing and free legal advice
Business Advice	National Federation of Enterprise Agencies - http://www.nationalenterprisenetwork.org/	Impartial advice, mentoring and training
EU markets rules	SOLVIT - http://ec.europa.eu/solvit/site/centres/index_en.htm	Helping companies to deal with problems related with the wrong application of the EU market rules by national authorities

Toy Fairs Calendar

Source: Toy shop UK - <http://www.toyshopuk.co.uk/fairs/>

Event	Date	Local	Motivation
London Toy Fair	24-26 January	London	Major toy fair in UK. Provides the opportunity for producers to present its products after the Christmas rush
Play Room at the Park	24-25 April	Cranmore Park - Solihull	Toy fair providing the opportunity for suppliers to meet buyers
Toy Master	22-24 May	Harrogate	Toy fair providing the opportunity for suppliers to meet buyers
Christmas in July	July	London	Toy fair specifically designed for journalists to collect information about the toys that are going to be sold in Christmas

Business Etiquette and Protocol⁶⁰

- **Greetings:** Firm handshake; Maintain eye contact is well considered but anything prolonged should be avoided; Business cards are exchanged at the initial introduction.
- **Communication:** There is a tendency to use a formal protocol avoiding effusive language in both written and oral communication. British are direct, but modest and are considered to be reserved.
- **Relationships:** Networking and relationship building are key for long-term business success.
- **Meetings:** Punctuality must be respected and the meetings should always have a clearly defined purpose.

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